



Alliance of Western Milk Producers

Representing California's dairy cooperatives and their producer-owners since 1991

1225 H Street, Suite 102 • Sacramento, California 95814 • 916-447-9941

April 18, 2006

A. G. Kawamura, Secretary
California Department of Food and Agriculture
1220 N Street
Sacramento, CA 95814

Subject: Proposal to Adjust California Class 1

Dear Secretary Kawamura:

California Food & Agriculture Code Section 62062.1, states:

"Any designation of a class 1 price by any method or formula that is used to develop class 1 prices paid to producers in the various marketing areas, shall provide, on a calendar year basis, a statewide weighted average minimum price level for a hundred weight of milk testing 3.5 fat and 8.7 solids not fat that is in reasonable relationship with minimum class 1 milk prices paid to producers in contiguous states. If the statewide weighted average class 1 prices paid to producers are not in a reasonable relationship with the class 1 prices paid to producers in contiguous states, the secretary shall immediately hold a hearing to consider adjustments to the class 1 prices." (Emphasis added)

An analysis of California's weighted average Class 1 price for milk testing 3.5 fat and 8.7 solids not fat in comparison to Class 1 producer price in contiguous states for calendar year 2005 shows that California's Class 1 price is not in a reasonable relationship with average Class 1 prices in Medford and Portland, Oregon; Reno, Nevada; or Phoenix and Yuma, Arizona. The table below shows that average producer Class 1 price in the contiguous states and the level at which they exceed the California weighted average Class 1 hundredweight price:

	Cwt.	SNF	Fat	Over CA
Phoenix	\$16.75	\$1.2083	\$1.7834	\$0.84
Yuma	\$16.40	\$1.1695	\$1.7799	\$0.49
Reno	\$16.30	\$1.1584	\$1.7789	\$0.39
Medford	\$16.30	\$1.1584	\$1.7789	\$0.39
Portland	\$16.30	\$1.1584	\$1.7789	\$0.39

In denying an earlier request for a hearing, Kelly Krug, Director of the Department's Marketing Branch noted that the above analysis was accurate. Our members believe that there is sufficient basis for the above adjustments now that the issue of unregulated packaged milk threatening California fluid processors has been resolved. It should also be noted that the passage and signing of S. 2120 also removed the Las Vegas market from the federal order system. Therefore,

April 20, 2006

California processors also have had the disadvantage of compensatory payments removed in selling into that market.

Therefore, the Alliance of Western Milk Producers, on behalf of its members and with the full authorization of its Board of Directors is petitioning the Department, once again, for a hearing to make the following adjustments to the Class 1 price formulas in order to effectuate a 39 cent increase in the Northern and Southern California Class 1 prices.

In both the Northern California and Southern California stabilization plans, decrease the butterfat value in the formula by -\$0.0216. Then, increase the Commodity Reference Price (CRP) adjuster used in the calculation of the Class 1 solids not fat and fluid carrier prices from the current value of +\$0.464 per hundredweight to a new value of +\$0.850 per hundredweight.

The formula for the Southern California Class 1 price components would be:

Price of Class 1 fat = ((CME butter - \$0.10) x 1.2) - \$0.0216

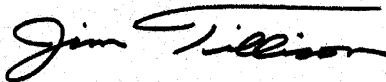
Price of Class 1 SNF = (((CRP + \$0.850) - (Class 1 fat price x 3.5)) x 0.76)/8.7

Price of Class 1 fluid = (((CRP + \$0.850) - (Class 1 fat price x 3.5)) x 0.24)/87.8

The Northern California Class 1 price component formulas would only differ in that one subtracts an additional \$0.0031 from the per pound price of fluid carrier.

With these adjustments, California's weighted average Class 1 producer hundredweight price will, on average for calendar year 2005, be in a more reasonable relationship to Class 1 producer prices in contiguous states as required by Section 62062.1. The Alliance requests that this hearing be called on an emergency basis so that even more time does not pass before the *unreasonableness* of the California Class 1 price relationship to surrounding markets is corrected.

Respectfully submitted,



Jim Tillison, CEO

cc: Alliance Board of Directors
A.J. Yates, Undersecretary
Kelly Krug, Marketing Branch Director
Dave Ikari, Dairy Branch Manager

Southern California Stabilization and Marketing Plan (Plan 59), Proposed Changes:

Article III

Class Prices

Section 300.0. The minimum class prices for the milk fat and skim milk components of market milk, market cream, and market skim milk f.o.b. the pool plant or nonpool plant located within this Marketing Area where the milk was first received from producers, shall be as follows:

(A) The minimum monthly prices for components used for Class 1 shall be determined prior to the beginning of each month, using the following formulas and procedures, except as such formulas and procedures may be modified by Paragraph (H) of this Section:

(1) For all milk fat, not less than the price per pound computed by the formula using the butter price determined pursuant to Subparagraph (A)(5) of this Section, less a butter adjuster of ten cents (\$0.10), and the ~~result sum~~ multiplied by a yield factor of 1.2, then subtract two and sixteen hundredths cents (\$0.0216) from the result.

(2) For all milk solids-not-fat, not less than the price per pound computed by the formula using the Commodity Reference price per hundredweight determined pursuant to Subparagraph (A)(4) of this Section, plus ~~forty-six and four tenths cents (\$0.464)~~ eighty-five cents (\$0.8500), less 3.5 times the fat price per pound determined pursuant to Subparagraph (A)(1) of this Section, all multiplied by 0.76 and divided by 8.7.

(3) For all fluid carrier, not less than the price per pound computed by the formula using the Commodity Reference Price per hundredweight determined pursuant to Subparagraph (A)(4) of this Section, plus ~~forty-six and four tenths cents (\$0.464)~~ eighty-five cents (\$0.8500), less 3.5 times the fat price per pound determined pursuant to Subparagraph (A)(1) of this Section, all multiplied by 0.24 and divided by 87.8.

Northern California Stabilization and Marketing Plan (Plan 44), Proposed Changes:

Article III

Class Prices

Section 300.0. The minimum class prices for the milk fat and skim milk components of market milk, market cream, and market skim milk f.o.b. the pool plant or nonpool plant located within this Marketing Area where the milk was first received from producers, shall be as follows:

(A) The minimum monthly prices for components used for Class 1 shall be determined prior to the beginning of each month, using the following formulas and procedures, except as such formulas and procedures may be modified by Paragraph (H) of this Section:

(1) For all milk fat, not less than the price per pound computed by the formula using the butter price determined pursuant to Subparagraph (A)(5) of this Section, less a butter adjuster of ten cents (\$0.10), and the ~~result sum~~ multiplied by a yield factor of 1.2, then subtract two and sixteen hundredths cents (\$0.0216) from the result.

(2) For all milk solids-not-fat, not less than the price per pound computed by the formula using the Commodity Reference price per hundredweight determined pursuant to Subparagraph (A)(4) of this Section, plus ~~forty-six and four tenths cents (\$0.464)~~ eighty-five cents (\$0.8500), less 3.5 times the fat price per pound determined pursuant to Subparagraph (A)(1) of this Section, all multiplied by 0.76 and divided by 8.7.

(3) For all fluid carrier, not less than the price per pound computed by the formula using the Commodity Reference Price per hundredweight determined pursuant to Subparagraph (A)(4) of this Section, plus ~~forty-six and four-tenths cents (\$0.464)~~ eighty-five cents (\$0.8500), less 3.5 times the fat price per pound determined pursuant to Subparagraph (A)(1) of this Section, all multiplied by 0.24 and divided by 87.8, and then \$0.0031 per pound subtracted from the result.